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Reed, Philip Dunham

American free enterprise
and the future

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AMERICAN
FREE ENTERPRISE
AND THE
FUTURE



Address by

PHILIP D. REED

308

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Box 583

American
Free Enterprise and
the Future



An address by Philip D. Reed, Chairman of the
Board of Directors, General Electric Company,
at a Dinner of the University of Wisconsin
Alumni Club of Milwaukee, Milwaukee, Wisconsin,
February 27, 1940

GENERAL  **ELECTRIC**

AUG 20 '40

Office of President

American Free Enterprise and the Future

PHILIP D. REED

I SIMPLY cannot find words to tell you how thrilled and gratified I am to be here in my home city under these most happy circumstances and to have the honor of addressing this distinguished audience of old friends and fellow alumni of that school of schools, the University of Wisconsin.

I have yet to see, either in this country or abroad, a more beautiful campus than Wisconsin's. It has been a number of years since I saw it last, but every detail is clear in my memory and as I think of it now it seems to me that simple exposure to its loveliness must tend to broaden and simplify one's viewpoint and to endow it with kindness and generosity. How deeply, how very deeply, these fine qualities of mind and spirit are needed in the world today!

Wisconsin, too, is known for its progressiveness in education and for its advanced thinking in the fields of social and political science. At times, indeed, it has been considered "pink" in its viewpoint, but the passage of a few years has in most cases demonstrated that what was mistaken for "pinkness" was in fact leadership in its thinking plus courage to blaze the trail. Progressiveness, leadership and courage are what we want and need in the world today.

Wisconsin among the states of the Union has been a proud and a good citizen, helpful in many ways to this great nation of ours. I am glad and proud that it is the state where I was born and raised and educated. May it carry on its great tradition, avoiding at once reactionism and radicalism and following that well balanced program for building a better and happier America on the proven principles of individual liberty, free enterprise and democracy.

Today's Task Is More Difficult

We have come a long way in the last hundred years from the days when our population was but a fraction of its present 130 odd

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million, when economic, social and political problems were far less complex, when town hall meetings were held in thousands of communities to discuss problems of national and local import, and when therefore democracy was in a sense bulwarked by a relatively well informed electorate. Today, let us quickly concede, the task of keeping even reasonably well informed on national problems is an almost overwhelming one. But if we cease to try, we are surely lost. I have great confidence in collective wisdom and can imagine nothing finer for this nation of ours than if all of us would spend some time each day, thirty minutes perhaps, reading not simply the headlines but articles and editorials on current problems with which we are unfamiliar.

It is interesting that through the ages (although it is less true today) those in possession of specialized knowledge have, perhaps unconsciously, shielded that knowledge from and magnified it in the eyes of the uninitiated. The doctor with his Latin terms for common ailments and his unreadable prescriptions, the lawyer with his antique, and to the laymen incomprehensible, verbiage, the engineer and the chemist with their symbols, terms and formulae that defy understanding except by those similarly trained, and even, in varying degree, the teachers of religion with their rituals and incantations, cast an aura of mysticism and wonderment over their respective works. It is not my purpose to examine the merits of this ancient practice as applied to the specialized fields I have mentioned, but rather to assert, dogmatically if you please, that it cannot and must not be applied to the fields of business and economics. As a matter of fact our economists have not needed a special vocabulary of occult terms because even when they use plain English the general public finds itself not infrequently in the position of the chap who after listening to his economist friend for half an hour said, "I understood every word you said, but not a single sentence!" Nor is this to cast reflection on economists. They are a great and intrepid group, engaged in analyzing an immense, living, shifting, many-sided and highly psychic body, the components of which are continually changing in size and perhaps in function, with the result that detailed study of the individual parts, as in surgery, chemistry or engineering, is difficult and of relative value only. But the study goes forward apace, relative values are being assigned,

the psychological aspects weighed and in the end we may, I believe, reasonably hope for broad acceptance and agreement by economists on those fundamental principles and factors, whatever they may be, that are necessary to the preservation of our American way of life.

Ignorance Is Greatest Single Threat to National Progress

In the meantime we all who are a part of the business and industrial life of this country must continually remember that ignorance on the part of the American people of what private business is and how it functions is the greatest single threat to national progress. We must not be reticent to tell the truthful story of our work in terms which all can understand.

We have heard a great deal in the past decade about free enterprise and the capitalistic system versus, on the one hand, state socialism, with its government ownership and operation of all productive facilities, and, on the other hand, the authoritarian state wherein private ownership continues but is subject to the control of a dictator and his party. In Europe we have seen living examples of the two last mentioned forms of government, beginning, as they did, with principles and programs diametrically not to say rancorously opposed, and reaching in the end such shocking identity of policy, technique and performance that they find themselves in what has been described as an obscene embrace.

In a truly socialistic state there can be of course no capitalism or free enterprise as we understand it. In a state ruled by a dictator, private enterprise may theoretically and to some extent actually exist, but the very presence of dictatorial power to regulate men's private affairs and direct their business activities, however well intentioned the dictator and however benignly that power may be used, is a serious and crippling deterrent to long range planning by private business, to the pioneering of new industries and the taking of long financial risks in the hope of reaping large rewards.

So we arrive almost at the outset at the conclusion that the capitalistic system (if it is worth preserving, and I shall say more about that in a moment) can best function in a democratic state where the broad rules for living have been laid down by the people

themselves in a fundamental document, where the more specific rules within the broad framework are made from time to time as need arises by chosen representatives of the people, acting for a limited time only, and where the administrative officers of the government, also chosen by the people for a limited time, have only such authority and discretionary power as enables them adequately to carry out and effectuate the rules so laid down.

Democracy Does Not Guarantee Enterprise System

But it will be noted at once that while this democratic state may under proper circumstances provide natural, healthy surroundings for the enterprise system, it may equally be applied to a partially socialized economy. In other words, the broad concept of government of the people, by the people and for the people, though it definitely excludes the notion of rule by despot or by dictator, contains no inherent guarantee of the private enterprise system as we know it here and no inhibitions against government activity in business, agriculture or any other field. Whether it shall be the one or the other or a combination of both, and whether having tried one for 150 years the other shall be experimented with for a time, is for the people to decide.

I make this observation, well known as it is to you all, simply by way of reminder that in theory at least private enterprise is not necessary to the existence of a democracy, and for that reason it must be understood and wanted for itself, quite apart from democracy as such, if we are to avoid the socialization of American industry, slowly, gradually at first, but of necessity with increasing rapidity.

Now what is this thing we call capitalism or the enterprise system; what has it done for us and is it worth preserving? The enterprise system has been defined as the system of private property and the profit motive; but like many definitions, this one says so much in so few words that one learns little from it. Also, our real interest lies less in what the system is than in what it does for us, what it accomplishes in terms of everyday living.

Basically of course the enterprise system provides *opportunity* and *incentive* for people to improve their condition in life. This is so

because under it we may own and hold the fruits of our labor, and any man therefore who can devise a product or can perform a service which because of its price, its quality or its originality is more desirable to his fellows than other available products or services, will prosper and enlarge his savings so long as he can hold this advantageous position. But those who seek also to sell *their* products or services are constantly and eternally at work to make them better, cheaper and more useful so that they in turn may assume leadership in the field and enjoy the reward of customer acceptance and demand. And if we multiply this situation many thousands of times and apply it to all the fields of productive endeavor, we find that we have put into motion a cosmic mechanism for the production of continuously better, cheaper and more useful things of life, with the inevitable accompaniment of a rising standard of living, and we have motivated the mechanism with that elemental fuel—the human urge to achieve a better and more comfortable position in life.

Socialism Has Not Succeeded

Compare this self-starting and self-operating mechanism with any scheme of things in which the elements of private ownership and the profit motive are absent. However one may theorize on the idealistic beauty of the socialized community in which all property is the property of all and all endeavor is for the benefit of all, the fact remains that although a number of sincere attempts have been made to function on this communal basis, none has yet succeeded. And I suspect that so long as we humans are what we are, none ever will. For without the profit motive, without the opportunity and incentive to obtain personal advantage by hard work and careful planning, a very high percentage of us humans just wouldn't get around to doing it.

But we need not deal with such extreme examples as the theoretical socialized community in order to compare the results of production and service activity with and without private ownership and the profit motive. Foreign government ownership and operation of such public utilities as the telephone, gas, electricity and radio-broadcasting industries affords more than adequate demonstration.

Again and again we have seen that even in capable and public-spirited hands, the public must sooner or later (and generally sooner) suffer from government ownership's inefficiency, inertia and complete lack of the profit motive's driving urge to find better and cheaper ways to do the job and to enlarge the service. And this is no reflection on the operators of government-owned business; it is simply proof of our fundamental thesis that man, whether he be a government official or a private citizen, will not over a period of time perform business functions as efficiently or as progressively under a system which does not give him freedom of action and a personal stake in the results.

Free Enterprise System Benefits the Employee

And right here let me interject that too many people are under the mistaken impression that the profit motive is something that applies only to and is for the exclusive benefit of employers, investors and owners of business institutions. Nothing could be farther from the truth. The profit motive as a part of our free enterprise system directly affects and provides personal opportunity for every employee and worker in private enterprise in this country. The constant pressure inherent in the system to produce better and cheaper goods puts each employee and his personal efficiency and performance under the scrutiny of those who direct and supervise the work.

In many companies every factory job or task is evaluated in relation to all others so that the compensation for each has a direct and appropriate relationship to the training and skill required to perform it. And having rated or evaluated a job, the compensation for that job is not one fixed figure but is variable within prescribed limits and every employee performing a given task is rated and paid on the basis of his own ability and efficiency in performing that task. An enterprising employee, therefore, seeking greater profit from his employment may increase his compensation on a given job by performing it better than his neighbor and can move on to other and higher rated jobs by studying and preparing himself to perform them.

This is simply one example of many that might be given to demonstrate that free enterprise and the profit motive reward

individual initiative and ability, whether it be found in the sagacity of one who provides capital for new enterprise, or the planning judgment of a manager, or the skill and resourcefulness of a man in the shop.

And what, may one ask, makes possible on the one hand and motivates on the other, the unionization of American workers? The answer is free enterprise and the profit motive as applied to labor. Unions as we know them here are nonexistent in countries where communism and dictatorship flourish and where free enterprise is gone or going. But here, where men are not told by their government what work they shall do and at what pay, where freedom of action still exists, they are free to leave one job if they can find a better one, they are free to join an outside union or to organize their own, or to deal directly and individually with their boss. And the decision, quite naturally, is reached on what in their judgment will be best for them individually—the profit motive again at work.

So when we come across the terms free enterprise, capitalism and the profit motive, let us think of their true significance, which is freedom of action and individual opportunity to improve one's position in life by hard work and careful planning. And let us remember that this freedom and this opportunity is for every citizen in the land.

And if under this system there are sometimes more men than jobs and at other times more jobs than men, and even if we assume that some part of this fluctuation is perhaps inherent in the free enterprise system and not chargeable to unfriendly attitudes or policies of government, we still find, in my humble judgment, the scales of national self interest heavily balanced in favor of free enterprise as against government regimentation and the sacrifice of individual opportunity.

Lord Chesterfield once said that a despotism, with which I include dictatorship, may almost be defined as a tired democracy. And may it not truly be said that for a people to permit its government, not merely to regulate, but to control and compete with its private business enterprises, is also evidence of a tired and misguided democracy?

This is not to say of course that government shall not engage in any business. There are some in which it alone can properly engage

despite its inherent handicaps, and there are others in which it must engage directly or through subsidy for the very reason that private industry under the compelling influence of the profit motive is unwilling to hazard its capital. But the test, the all important test to be applied to each proposal that government enter the natural and traditional field of private business, is this: Can the job be done or is it being done with private capital and under the profit motive system? If so, I submit that every American should insist upon doing it that way because, and only because, it surely will be done better and at less expense. If, on the other hand, private capital cannot be interested in the project, we may fairly assume that it is a hazardous one from the standpoint of the investor and that if government be the investor it may be expected to sustain heavy losses. On this realistic basis, then, we may evaluate the desirability of the project and the need of proceeding with it in the public interest.

Competition Is a Vital Part of the Enterprise System

Although it is implicit in much that I have said about the enterprise system, I have up to this point laid particular stress on the profit motive rather than on competition. I did this for the reason that the profit motive is the ever present common denominator of all private business, whereas competition varies greatly in degree as between such industries as the telephone or light and power industries on the one hand, which are inherently unsuited to competition and whose rates are fixed by Government Commissions, and on the other hand such industries, for example, as the steel, automotive and electrical manufacturing industries, which are suited for and do have wide competitive activity. But regardless of these inherent differences, a word about competition in its broader aspects may not be inappropriate.

It is generally assumed that competition is the purchaser's protection against excessive prices and that the purchaser (or the general public) is the principal, if not the sole, beneficiary. To be sure, competition does serve this purpose; sometimes, indeed, not wisely but too well! And while I sincerely believe that American business has learned a great deal in recent years about price econom-

ics and that the day of the big-time profiteer is gone, yet I would be the last willingly to relinquish competition. It is an integral and vital part of this enterprise system of ours under which millions of minds are constantly searching for new products and new ways to make old products better and cheaper, and for better and cheaper ways to distribute them. It is a race, reckless at times, and always breathless, but it is good. I have seen so often the stimulating and vitalizing effect in my own company of a new development by a competitor, and the manner in which a tight competitive situation will banish complacency and produce answers to problems theretofore considered unanswerable.

The old cliché, "Necessity is the mother of invention," is still heavy with truth. Whatever General Electric may have been able to do by way of stimulating its 1500 or 1600 competitors in the electrical manufacturing industry, it hereby acknowledges with sincere thanks the stimulation it has received from them these many years.

And so, while I am quick to acknowledge the benefits of competition in and between business, it must be remembered that competition can also be a destructive and highly antisocial instrument. Too much of it results in whole industries operating at a loss with consequent gradual dissipation of the invested capital of the industry, financial inability to carry on adequate development and research programs, and, with the elimination through bankruptcy of the weakest and then the intermediate units, the ultimate creation of a monopoly in the survivors which defeats the very purpose of the competitive system. And while cases may be found of industries which have operated at a loss for extended periods without substantially reducing the number of competitors, this can happen only so long as new capital is available to refinance the weaker units or to purchase at bargain prices the plant and equipment of bankrupt companies. And no one would seriously contend that the public is or can be well served by an industry that is distributing part of its capital with every sale and that has no funds to finance forward programs of product and equipment improvement, which over a period of years would permit profitable price reductions below the present unprofitable selling prices.

What we really seek therefore is that degree of competition which will continuously keep business management under urgent

pressure to move forward in the direction of better and cheaper products, and which will promptly penalize through diminishing profits the concern which fails to make its contribution or keep abreast of progress day after day and year after year. Having created this condition, competition has fully served its purpose, and to do more than that is to defeat its own end and weaken the national economy. Because this is so and because conditions are not the same in any two industries, an attempt to impose one legislative rule of thumb on competition in all industries must necessarily prove in large part abortive. Better no doubt than nothing are our Federal antitrust laws, but blanketing, as their vaguely worded provisions do, so many fields of legitimate and sound economic co-operation, the problem of enforcing these statutes becomes almost as difficult as that of understanding and complying with them.

But the solution, let me hasten to say, is not a simple one. To serve best the national interest, antitrust laws must of necessity be flexible so that the particular and varied problems of each industry within their compass can be met and dealt with individually to the end that such degree of competition shall exist as truly serves and protects the consumer. To effectuate this program would doubtless require an underlying broad prohibition against clearly defined restraints of trade, with provisions for the exemption, subject to periodic review, of any industry voluntarily presenting a plan for industry co-operation which is demonstrably in the national interest and is approved by a government body familiar with the conditions in that field.

Free Enterprise System Is Fundamentally Sound

But this is not the time or the place to discuss revision of our antitrust laws. We had been talking of competition which, with private ownership and the profit motive, constitute the main spring, the self-operating unwind-downable main spring of our American free enterprise system. And the conclusion seems clear that whatever the failures in our economic scheme of things, however great the problems of unemployment, economic inequality and the current hesitation of private capital to flow freely into new and expanding enterprises, the fault cannot and does not lie

in the foundation of our economic system, which is free enterprise, and which functions and will function just as surely as human beings are born with an urge to improve their lot. The trouble, I submit, lies in the design and operation of the structure we have erected on that firm foundation. If we can simplify our search to this extent and concentrate our energies on finding the architectural and administrative faults in our economic building rather than in its foundation, we shall have accomplished much.

Business Must Tell Its Story to the American People

American business is now, I think, awake to the need of telling this story to the American people. We too long assumed that the enterprise system was a permanent and impregnable part of the American scene, and we awoke one day to find an astonishingly large number of our fellow Americans who do not understand it and who have come to regard American business with doubt and with suspicion, natural enough no doubt when one considers the ten years of depression we have just been through and the millions of young people who have reached working age, with no work to do, during that period. We can, I submit, devote time and careful attention no better than to the understanding and education of these many Americans.

And in the meantime, entering as we are an unpredictable period in a torn and troubled world, with a strong likelihood of quick and important changes in the business outlook almost from day to day, what can we do better to prepare ourselves for rapid adjustment to the shifting times?

You may recall the youngster who, when asked to define an adult, said that an adult is a person who has stopped growing except in the middle. While Webster is much kinder in his definition, there is something both interesting and arresting in the child's definition as applied to corporate organizations which have reached maturity. It is too often the case with these companies that while at one end direct labor and raw material may be utilized well and efficiently, and while at the other end of the organization there may be no increase in management personnel or expense, the middle section where lies the great bulk of general expense and overhead,

shows an unhealthy bulge. I make no suggestion that this is true of your companies, gentlemen, and I mention it simply as a prelude to the very general and much safer observation that the best preparation I can imagine for the part business must play in the economic rough-and-tumble that may lie ahead, is a good look at itself in the mirror, and a course of diet and training to remove anything not functionally essential; in a word, to restore the corporate figure and to put tone and vitality into every part.

I do not look into the future with trepidation. Quite the contrary. I firmly believe that the present trend of national feeling is away from the something-for-nothing school of thought, away from the past willingness to experiment here, there and everywhere, and definitely in the direction of the more realistic point of view which recognizes that money as such contains no vitamins, is useless for shelter or for clothing, and is no more than a convenient substitute for the direct exchange of the products of industry or agriculture which, rather than money, represent the wealth of a people; and that accordingly unless business deterrents are removed and the American people turn confidently and eagerly to the task of making ever better, ever cheaper goods for more people to buy, there can be no permanent answer to unemployment and social security.

And while I am confident of these things, I recognize, too, that we are not the masters of our fate, that we face many questions, world-wide questions, which today are imponderable and over which we have little control. And so I say, let us do what we can to be ready. Let us tell the story of free enterprise anywhere and everywhere we can, and let us oppose every project or program that will weaken or destroy it. Let us make our business institutions keen, lithe and vigorous, for with efficient and functional productive organizations we can at least start quickly and change quickly. We cannot be certain of the future, but we can face it with confidence and high courage. For, as Oliver Wendell Holmes once said, "The longing for certainty and repose is in every human mind. But certainty is generally illusion and repose is not the destiny of man."

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